MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BAC1634 – FINANCIAL ACCOUNTING & REPORTING 1

(All sections / groups)

28th MAY 2019
9:00 a.m. – 12:00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. According to the "Conceptual Framework for Financial Reporting" issued in April 2018 by the Malaysian Accounting Standards Board (MASB), the objective of general-purpose financial statements is to "provide financial information about the reporting entity that is useful to the existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity".

In order to meet the objective of providing user-oriented information, financial statements should have adequate qualitative characteristics. Thus, the Conceptual Framework sets out fundamental qualitative characteristics that enhance the usefulness of such information.

Required:

Name the TWO (2) fundamental qualitative characteristics as set out in the Conceptual Framework. Discuss how they can enhance the usefulness of information presented in financial statements.

(15 marks)

b. In a recent financial audit, it was found that Alcat Bhd. (Alcat) has recognised all its expenditures as assets in its statement of financial position. An interview with Alcat's accounts manager revealed that the recognitions were made as such because top management believed that the expenditures could generate future benefits for the company.

Required:

Explain in detail to the top management of Alcat Bhd. on the conditions for an item to be recognised as asset.

(10 marks)

(Total: 25 marks)

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QUESTION 2

Ra-Ko & Associates was established in year 2000. Mako and Raleigh are both general partners in the firm and they share the firm's profits and losses in the ratio of 2:1 respectively. The trial balance for Ra-Ko & Associates as at 31st December 2018 is presented below.

	RM	RM
Purchases	235,700	
Selling expenses	15,800	
Rent expense	13,000	
Sales		327,160
Bank	7,750	
General expenses	1,760	
Accounts payable		14,200
Current accounts as at 1st January 2018		
- Mako		3,900
- Raleigh		2,700
Accounts receivable	12,750	
Insurance expense	2,400	
Inventory as at 1st January 2018	23,500	
Motor vehicle expense	2,500	
Provision for doubtful debts as at 1st January 2018		700
Salaries	14,400	
Drawings		
- Mako	6,500	
- Raleigh	5,600	
Capital accounts as at 1st January 2018		
- Mako		12,000
- Raleigh		6,000

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	RM	RM
Motor vehicle (at cost)	36,000	
Fixtures and fittings (at cost)	8,000	
Accumulated depreciation as at 1st January 2018		
- Motor vehicle		16,000
- Fixtures and fittings		3,000
	385,660	385,660

The additional information obtained on 31st December 2018 are as follows:

a. Interests on drawings for the year are RM195 for Mako and RM164 for Raleigh.

b. Raleigh is entitled to a salary of RM12,000 per annum before any profit is shared.

c. On 1st July 2018, Mako has made a personal loan of RM7,500 to be channelled into the firm as cash injection to the business. It was agreed between Raleigh and Mako that a loan interest of 6% per annum shall be credited to Mako's account.

d. Rent of RM1,000 has been paid in advance.

e. Inventory as at 31st December 2018 is valued at RM16,250.

f. Bank charges of RM81 have not been entered into the firm's accounts.

g. RM600 of salary is still unpaid as at 31st December 2018.

h. Debts of RM350 are to be written-off. The provision of doubtful debts is to be adjusted, which based on past experience is to be equivalent of 7% of the remaining accounts receivable.

i. The firm practices the following depreciation policy:

- Motor vehicles are depreciated at 20% using the reducing balance method.
- Fixtures and fittings are depreciated at 15% using the straight-line method.

Required:

i. Prepare the income statement and appropriation account for Ra-Ko & Associates for the year ended 31st December 2018. Show ALL relevant workings.

(15 marks)

ii. Prepare the partners' currents account for the year ended 31st December 2018.

(7 marks)

Continued...

iii. In March 2019, Mako and Raleigh have decided that they want to retire from the business. Explain to them the process involved in dissolving Ra-Ko & Associates.

(3 marks)

(Total: 25 marks)

QUESTION 3

Part A

Vlad Bhd. was incorporated in year 2000 with accounting year-end at 31st December each year. Its share capital consisted of 8 million ordinary shares with fully paid-up capital of RM10,000,000.

On 1st July 2018, Vlad Bhd. issued 2.75 million convertible preference shares at RM1.00 each. The convertible preference shares carry a gross dividend rate of 7.5%, which are payable semi-annually and are convertible into ordinary shares at a rate of 2:1 as from 1st January 2021 onwards.

Vlad Bhd.'s profits after tax for 2018 and 2019 were RM4,220,000 and RM8,240,000 respectively. Assume that the statutory tax rate is 24%.

Required:

i. Calculate the basic earnings per share for 2018 and 2019. Round up your answer to FOUR (4) decimal points.

(5 marks)

ii. Calculate the diluted earnings per share for 2018 and 2019. Round up your answer to FOUR (4) decimal points.

(5 marks)

Part B

Lockwood-Carlyle Bhd. is a robotics manufacturer that supplies a majority of the Fortune 500 technology corporations. In its most recent meeting, the board of directors of Lockwood-Carlyle Bhd. has approved the financial statement for the year ended 31st December 2018 for issue on 31st March 2019.

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Nevertheless, the following events have occurred.

i. On 2nd March 2019, the company's microchip factory in Bayan Lepas Free Industrial Zone was damaged due to flash flood. The factory was insured sufficiently and the loss was estimated to be RM1,760,000, which was a material amount to the company.

ii. On 14th February 2019, a shipment of the company's microboard processors to the United States via Dubai was held by Dubai Customs Department due to errors in the export manifest filed earlier in January 2019. Lockwood-Carlyle Bhd. was fined RM150,000, which was not a material amount to the company, and the shipment was subsequently released.

iii. A major customer of Lockwood-Carlyle Bhd., Fits & Rottwell Ltd. has suddenly declared bankruptcy on 13th January 2019. The outstanding receivables from Fits & Rottwell Ltd. stood at RM1.15 million as at 31st December 2018 and thus, was material. Lockwood-Carlyle Bhd. had made no provision for doubtful debts in respect of this receivables as it was of the opinion that the amount was wholly collectible in near future. It was very unlikely that Lockwood-Carlyle Bhd. would recover anything from Fits & Rottwell Ltd.

iv. Lockwood-Carlyle Bhd. had been involved in a patent infringement lawsuit over its product called the X50-β sensor with a Korean corporation since September 2017. Its legal department had advised that there was a high probability that the company would lose the lawsuit by RM87 million. Following this advice, Lockwood-Carlyle Bhd. had provided for that liability in its financial statements for years ended 31st December 2017 and 2018. In 29th March 2019, both companies had agreed to settle the case out of court and Lockwood-Carlyle Bhd. was to pay the Korean corporation RM56 million as compensation.

Required:

Discuss the accounting treatment for each of the four events stated above in accordance with *MFRS110 Events after the Reporting Period* and any other relevant standards, if applicable.

(15 marks)

(Total: 25 marks)

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QUESTION 4

Part A

On 1st June 2018, Cubbins Bhd. acquired a piece of machinery for its factory by cash. The details of the acquisition are as follows:

Quoted price	RM500,000
Freight insurance	5% of quoted price
Transportation cost	RM8,000
Estimated maintenance costs	RM5,000/annum
Annual insurance premium	RM2,400
Customs duties	RM3,000
Installation fees	RM4,000
Discount for cash acquisition	3% of quoted price
Salvage value	5% of initial cost
Estimated useful economic life	10 years

Required:

i. Calculate the initial cost of the machinery according to *MFRS116 Property, Plant and Equipment.*

(8 marks)

ii. Record the entries for the acquisition of the machine.

(2 marks)

iii. Calculate the depreciation charge of the machinery for the financial year ended 30th September 2018. The company practices the policy of charging a full-year depreciation for newly acquired assets. Round up your answer to the nearest RM.

(3 marks)

iv. Record the entries for the depreciation charge of the machinery.

(2 marks)

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Part B

Barnes & Quills Bhd. purchased a brand new specialised robotic assembly arm on 15th December 2017 for RM1.5 million. At the date of acquisition, the arm had a useful life of 7 years.

On 1st January 2018, Barnes & Quills Bhd. entered into an agreement to lease the arm to RobotGen Bhd. Both parties consented in the agreement that:

- the lease is non-cancellable for a period of 7 years;
- the lease rental is to be RM250,000 per annum throughout the duration of the lease with the payment to be made on 31st December each year; and
- Barnes & Quills Bhd. will earn a 5% rate of return on the lease rental. The present value for annuity factor is 5.7864.

Required:

i. Classify this lease according to the criteria stated by *MFRS16 Leases*.

(2 marks)

ii. Record the initial measurement of the lease at its commencement date in the books of Barnes & Quills Bhd.

(8 marks)

(Total: 25 marks)

End of Paper